

## Message Text

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FM SECSTATE WASHDC

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FOLLOWING REPEAT ROME 8659 ACTION SECSTATE INFO MILAN NAPLES  
DEPT OF TREASURY 24 JUNE 1974. QUOTE:

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TREASURY PASS MR. NATHAN GORDON

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: STATUS OF US-ITALY BILATERAL TAX CONVENTION

1. SUMMARY. DURING INFORMAL TALK WITH MINISTRY OF  
FINANCE OFFICIALS ON JUNE 21, US REPS WERE TOLD THAT  
NO FINAL DECISION HAS YET BEEN MADE BY GOI ON WAY IN  
WHICH 1955 BILATERAL CONVENTION SHOULD BE APPLIED  
FOLLOWING ITALIAN INCOME TAX REFORM. THUS CRITICAL  
QUESTION OF WHETHER LOCAL INCOME TAX (ILOR) WILL BE  
COVERED BY CONVENTION IS STILL OPEN. HOWEVER,  
GOI VIEW WAS STRONGLY IN FAVOR OF MAINTAINING  
CONTINUITY OF TREATY. PERSONAL PREFERENCE WAS EX-  
PRESSED ON BOTH SIDES FOR SIMPLE EXCHANGE OF NOTES  
NOT REQUIRING PARLIAMENTARY RATIFICATION. US REPS  
ADVISED GOI REPS THAT AT LEAST PRO FORMA DENUNCIATION  
OF TREATY BY US MIGHT BE NECESSARY, IF PROBLEM NOT  
SATISFACTORILY RESOLVED BY END-JUNE. HOWEVER,  
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DENUNCIATION COULD SUBSEQUENTLY BE WITHDRAWN. GOI REPS

ASSURED US REPS THAT DECISION SHOULD BE FORTHCOMING BEFORE END OF THIS MONTH AND USG WOULD BE INFORMED OF THIS ASAP. END SUMMARY.

2. ON JUNE 21 INFORMAL MEETING WAS HELD BETWEEN USG REPS (INCLUDING GORDON FROM TREASURY WASHINGTON) AND GOI REPS (HEADED BY SEMPRINI, DIRECTOR GENERAL FOR INTERNATIONAL AFFAIRS IN MINISTRY OF FINANCE). BOTH SIDES STRESSED THAT THEY WERE SPEAKING ONLY IN PERSONAL CAPACITIES. MEETING DEALT WITH BASIC INTENT OF TWO GOVERNMENTS REGARDING FUTURE OF 1955 DOUBLE TAXATION TREATY ON INCOME TAXES, PROCEDURES FOR KEEPING TREATY IN FORCE, COVERAGE OF TREATY FOLLOWING ITALIAN TAX REFORM MEASURES, AND TIMING OF FINAL DECISION BY GOI ON THESE MATTERS.

3. SEMPRINI STRESSED THAT HE WAS SPEAKING ONLY IN PERSONAL CAPACITY BUT HE COULD GIVE US REPS STRONG ASSURANCE THAT GOI WOULD LIKE TO MAINTAIN CONTINUITY OF TREATY FROM JANUARY 1, 1974 WHEN NEW ITALIAN INCOME TAXES WENT INTO EFFECT. HE AND US REPS BOTH FAVORED SIMPLE EXCHANGE OF NOTES AS QUICKEST PROCEDURE FOR ASSURING CONTINUITY, SINCE THIS ADMINISTRATIVE APPROACH WOULD AVOID POSSIBLE DELAYS FROM HAVING TO AWAIT PARLIAMENTARY RATIFICATION IF MORE FORMAL METHOD WERE USED. INTERIM ARRANGEMENT WOULD, IN ANY CASE, BE FOLLOWED BY OVERALL NEGOTIATION OF NEW OR REVISED TREATY.

4. CONCERNING PRECISE APPLICABILITY OF TREATY TO NEW ITALIAN LAWS, US REP SUGGESTED THAT IT MIGHT BE POSSIBLE TO FINESSE THORNY PROBLEM OF FORMALLY DECIDING WHETHER ILOR WAS LOCAL TAX OR NOT AND WHETHER IT SHOULD EXPLICITLY BE COVERED BY CONVENTION. THUS, IT MIGHT BE POSSIBLE IN EXCHANGE OF NOTES TO REFER TO TREATMENT OF TYPES OF INCOME RATHER THAN COVERAGE OF SPECIFIC TAXES. NOTES MIGHT INDICATE THAT WITHHOLDING RATES SHOULD NOT BE HIGHER AFTER INTRODUCTION OF ITALIAN TAX REFORM THAN THEY HAD BEEN PRIOR TO REFORM AS REGARDS EACH KIND OF INCOME. SEMPRINI REPLIED THAT ITALIANS HAD CONSIDERED LIMITED OFFICIAL USE

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THIS APPROACH. HE WAS NOT SURE THAT IT WOULD BE POSSIBLE TO AVOID FACING ILOR ISSUE HEAD ON, BUT HE WOULD TAKE NOTE OF US INTEREST IN THIS APPROACH. HE THEN DESCRIBED TWO BASIC APPROACHES TO QUESTION OF COVERAGE OF CONVENTION. FIRST APPROACH WOULD BE THAT SUGGESTED BY US REPS OF REFERRING TO TAX TREATMENT OF SPECIFIC KINDS OF INCOME. SECOND APPROACH WOULD BE TO CHANGE ARTICLE 1(B) OF CONVENTION SO AS TO LIST NEW PERSONAL

AND CORPORATE INCOME TAXES TO BE COVERED BY TREATY.  
HOWEVER, SECOND ALTERNATIVE MIGHT, OR MIGHT NOT, BE  
ACCOMPANIED BY SOME KIND OF COMMITMENT CONCERNING APPLI-  
CABILITY OF CONVENTION TO ILOR AT SOME POINT IN TIME.

5. US REPS EXPLAINED THAT THEY HAD BEEN INUNDATED BY  
QUESTIONS FROM US RECIPIENTS OF INCOME FROM ITALY AND  
FROM ITALIAN RESIDENTS WHO MAKE SUCH PAYMENTS, ALL OF  
WHOM WANTED TO KNOW WHETHER THEY SHOULD WITHOLD AGAINST  
POSSIBLE TAX LIABILITY AND, IF SO, HOW MUCH. THEY  
WERE CONCERNED ABOUT POSSIBILITY OF INCURRING PENALTIES  
LATER ON. SEMPRINI SAID THAT ONLY ANSWER HE COULD GIVE  
UNTIL FINAL DECISION WAS TAKEN AS THAT GOI FIRMLY  
INTENDED TO KEEP TREATY CONTINUOUSLY IN FORCE.

6. US REPS FOREWARNED ITALIANS THAT, IF THERE WAS NOT  
YET A RESOLUTION OF THE PROBLEM OF APPLICABILITY OF  
TREATY BY JUNE 30 DEADLINE FOR DENOUNCING TREATY,  
WASHINGTON MIGHT CONCLUDE THAT DENUNCIATION WAS NECESSARY.  
HOWEVER, EVEN IF TEATY WERE FORMALLY DENOUNCED, THIS  
DENUNCIATION COULD LATER BE WITHDRAWN IF PROBLEM WERE  
SATISFACTORILY SETTLED BEFORE TREATY WOULD TERMINATE  
ON JANUARY 1, 1975. US NOTE WHICH COMMUNICATED DECISION  
TO DENOUNCE MIGHT ALSO EXPLAIN ESSENTIALLY PRO FORMA  
NATURE OF DENUNCIATION AND POSSIBILITY OF ITS WITHDRAWAL.  
SEMPRINI HOPED THAT DENUNCIATION WOULD NOT BE NECESSARY,  
BUT HE COULD UNDERSTAND US POSITION.

7. ITALIANS SAID THAT WHOLE QUESTION HAD BEEN STUDIED  
IN DEPTH SINCE PREVIOUS MEETING AND VARIOUS ALTERNA-  
TIVES HAD BEEN PRESENTED TO HIGH LEVEL ITALIAN OFFICIALS  
RESPONSIBLE FOR MAKING FINAL DEICISON. THEY HAD HOPED  
TO HAVE ANSWER BY NOW, BUT WERE QUITE CERTAIN THAT  
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ANSWER WOULD BE FORTHCOMING IN NEXT FEW DAYS; I.E.,  
BEFORE END OF JUNE. IN SUCH CASE, ANSWER WOULD LIKELY  
TAKE FORM OF NOTE VERBALE DELIVERED BY ITALIAN FOREIGN  
MINISTRY TO US EMBASSY. MINFIN OFFICIALS COULD ALSO  
LET EMBASSY KNOW AS SOON AS DECISION WAS TAKEN AS  
THEY WOULD URGE MINISTRY OF FOREIGN AFFAIRS TO INFORM  
EMBASSY PROMPTLY SO THAT WASHINGTON COULD BE ADVISED  
OF RESPONSE AS SOON AS POSSIBLE. VOLPE

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